

CHEROKEE COUNTY SOLID WASTE COMMISSION

**INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2015

CHEROKEE COUNTY SOLID WASTE COMMISSION

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CHEROKEE COUNTY SOLID WASTE COMMISSION

OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Representing</u> |
|----------------|----------------------------|---------------------|
| Mark Leeds | Executive Board - Chairman | Cherokee County |
| Roman Redig | Co-Chairman | Aurelia |
| Donald Parrot | Treasurer | Washta |
| Gary Lindquist | Board Member | Cherokee |
| Les Pederson | Board Member | Cleghorn |
| Dan James | Board Member | Larrabee |
| Steve Galigan | Board Member | Marcus |
| Roger Smith | Board Member | Meriden |
| Larry Nelson | Board Member | Quimby |



INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Cherokee County Solid Waste Commission:

Report on Financial Statements

We have audited the financial statements of Cherokee County Solid Waste Commission (the Commission) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the comptroller general of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design auditor procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Commission, as of June 30, 2015, and the changes in financial position and cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 11 to the financial statements, the Commission adopted new accounting guidance related to the Governmental Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require management's discussion and analysis, the schedule of the Commission's Proportionate Share of the Net Pension Liability, and the schedule of Commission contributions on pages 4 through 8 and pages 26 through 29 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 25, 2016 on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Cherokee County Solid Waste Commission internal control over financial reporting and compliance.

Williams & Company, P.C.
Certified Public Accountants

Spencer, Iowa
February 25, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

Cherokee County Area Solid Waste Commission provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended 5. We encourage readers to consider this information in conjunction with the Commission's financial statements, which follow.

FINANCIAL HIGHLIGHTS

- The Commission's operating revenues increased 2.2%, or \$33,641 from the fiscal year 2014 to fiscal year 2015.
- The Commission's operating expenses increased 21.7%, or \$250,693 from fiscal year 2014 to fiscal year 2015.
- The Commission's Net Position increased 1%, or \$26,010 from June 30, 2014 to June 30, 2015.

USING THIS ANNUAL REPORT

The Cherokee County Area Solid Waste Commission is a 28E organization and presents its financial statements using the economic resources measurement focus and accrual basis of accounting, which is the same measurement focus and basis of accounting employed by private sector business enterprises. This discussion and analysis are intended to serve as an introduction to Cherokee County Area Solid Waste Commission's basic financial statements. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Commission's financial activities.

The Statement of Net Position presents information on the Commission's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference reported as Net Position. Over time, increases or decreases in Net Position may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

The Statement of Revenues, Expenses, and Changes in Net Position is the basic statement of activities for proprietary funds. This statement presents information on the Commission's operating revenues and expenses, non-operating revenues and expenses and whether the Commission's financial position has improved or deteriorated as a result of the year's activities.

The Statement of Cash Flows presents the change in the Commission's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Commission financed its activities and how it met its cash requirements.

The Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Require Supplementary Information further explains and supports the financial statements with the Commission's proportionate share of the net pension liability and related contributions.

FINANCIAL ANALYSIS OF THE COMMISSION

Statement of Net Position

As noted earlier, Net Position may serve over time as a useful indicator of the Commission's financial position. The Commission's Net Position for fiscal year 2015 totaled \$2,401,819. This compares to \$2,375,809 for fiscal year 2014. A summary of the Commission's Net Position is presented below.

| STATEMENT OF NET POSITION | | |
|-------------------------------------------------------|-------------|------------------------|
| | June 30, | |
| | 2015 | 2014 (Not restated) |
| Current assets | \$ 896,201 | \$ 620,289 |
| Restricted investments | 696,436 | 689,146 |
| Capital assets at cost, less accumulated depreciation | 5,270,904 | 5,512,355 |
| Other Assets | 10,421 | 10,421 |
| Total assets | 6,873,962 | 6,832,211 |
| Deferred Outflows of Resources | 24,967 | - |
| Current liabilities | 292,746 | 300,586 |
| Long-term liabilities | 2,671,166 | 2,907,846 |
| Other Liabilities | 1,473,953 | 1,080,550 |
| Total liabilities | 4,437,865 | 4,288,982 |
| Deferred Inflows of Resources | 59,245 | - |
| Net Position: | | |
| Net Investment in Capital Assets | 2,370,715 | 2,378,140 |
| Restricted | 740,868 | 731,309 |
| Unrestricted | (709,764) | (566,220) |
| Total Net Position | \$2,401,819 | \$2,543,229 |

The unrestricted portion of the Commission's Net Position is a deficit balance at June 30, 2015. The amount invested in capital assets (e.g. land, buildings and equipment), less the related debt portion of Net Position are resources allocated to capital assets. The remaining Net Position is restricted for closure and postclosure care and restricted tonnage fees. State and federal laws and regulations require the Commission to place a final cover on the landfill sites and perform certain maintenance and monitoring functions at the landfill sites for a minimum of thirty years after closure.

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The beginning net position was restated \$167,420 to retroactively report the net pension liability as of June 30, 2013 and deferred outflows of resources related to contributions made after June 30, 2013 but prior to July 1, 2014. The financial statement amounts for fiscal year 2014 net pension liabilities, pension expense, deferred outflows of resources and deferred inflows of resources were not restated because the information was not available. In the past pension expense was the amount of the employer contribution. Current reporting provides a more comprehensive measure of pension expense which is more reflective of the amounts employees earned during the year.

Statement of Revenues, Expenses and Changes in Net Position

Operating revenues are received for gate fees from accepting solid waste and assessments from the residents of the County. Operating expenses are expenses paid to operate the landfill. Non-operating revenues and expenses are for interest income, rental income, rental expenses, and interest expense. The utilization of capital assets is reflected in the financial statements as depreciation, which allocates the cost of an asset over its expected useful life. A summary of revenues and expenses for the years ended June 30, 2015 and June 30, 2014 is presented below:

| STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION | | |
|--------------------------------------------------------------|---------------------|------------|
| | Year ended June 30, | |
| | 2015 | 2014 |
| | (Not restated) | |
| OPERATING REVENUES | | |
| County and City Assessments | \$ 840,434 | \$ 839,743 |
| Tipping Fees | 528,355 | 550,468 |
| Sales of Recycled Products | 42,718 | 78,174 |
| Rent Income | 14,151 | 8,400 |
| Chicken Disposal Income | 113,881 | - |
| Miscellaneous | 3,541 | 32,654 |
| Total Operating Revenues | 1,543,080 | 1,509,439 |
| OPERATING EXPENSES | | |
| Salaries | 192,599 | 191,834 |
| Payroll Tax Expenses | 17,384 | 17,262 |
| Directors and Management Fees | 8,490 | 7,469 |
| Newspaper Purchased | 13,088 | 14,180 |
| Shop Supplies and Expenses | 2,267 | 2,821 |
| Insurance | 82,174 | 42,481 |
| Employee Benefits | 48,151 | 60,011 |
| Vehicles Expense | 759 | 2,676 |
| Disposal Fees | 848 | 746 |
| Repairs – Building | 746 | 5,153 |
| Repairs – Equipment | 42,201 | 38,024 |
| Fuel | 36,748 | 42,902 |
| Rock Expense | 19,749 | 15,111 |
| Landfill Expense | 41,243 | 63,289 |
| Recycling Expense | 13,935 | 15,838 |
| PCB Clinic Expenses | 10,838 | 11,190 |
| Depreciation and Amortization | 381,917 | 343,757 |
| Utilities | 14,985 | 17,356 |
| Engineering and Testing | 55,082 | 76,739 |
| Iowa Department of Natural Resources Tonnage Fees | 31,925 | 34,409 |
| Leachate | - | 1,751 |
| Advertising | 3,452 | 4,551 |
| Office Supplies and Postage | 3,853 | 3,319 |
| Closure and Postclosure Care Costs | 315,357 | 26,086 |
| Professional Services | 52,591 | 71,581 |
| Bad Debt Expense | 214 | 35,246 |
| License, Fees and Permits | 3,359 | - |
| Miscellaneous Expenses | 12,318 | 9,798 |
| Total Operating Expenses | 1,406,273 | 1,155,580 |
| Operating Income | 136,807 | 353,859 |

NON-OPERATING REVENUE (EXPENSES)

| | Year ended June 30, | |
|-----------------------------------------|---------------------|----------------|
| | 2015 | 2014 |
| | | (Not restated) |
| Interest Income | 8,934 | 53,498 |
| Gain (Loss) on Sale of Equipment | 1,398 | 109,556 |
| Realized Loss on Sale of Investments | - | (34,848) |
| Interest Expense | (121,129) | (217,612) |
| Total Non-Operating Revenues (Expenses) | (110,797) | (89,406) |
| Change in Net Position | 26,010 | 264,453 |
| Net Position Beginning of Year | 2,543,229 | 2,278,776 |
| Prior Period Adjustment | (167,420) | - |
| Restated Net Position Beginning of Year | 2,375,809 | 2,278,776 |
| Net Position End of Year | \$ 2,401,819 | \$ 2,543,229 |

The Statement of Revenues, Expenses, and Changes in Net Position reflect a positive year with an increase in the Net Position at the end of the fiscal year.

In fiscal 2015, operating revenues increased by \$33,641, or 2.2%. Majority of this decrease is due to \$113,881 of revenues from the disposal of chicken ashes. Operating expenses increased by \$250,693, or 21.7%. The increase in operating expenses was due to an increase in the closure and post closure care costs.

Statement of Cash Flows

The Statement of Cash Flow presents information related to cash inflows and outflows, summarized by operating, capital and related financing and investing activities. Cash provided by operating activities includes gate fees and assessments reduced by payments to employees and to suppliers. Cash used from capital and related financing activities includes principal repayments and the purchase of capital assets. Cash provided by investing activities includes proceeds from the redemption of certificates of deposit and interest income.

CAPITAL ASSETS

At June 30, 2015, the Commission had \$5,270,904 invested in capital assets, net of accumulated depreciation of \$3,050,339. Depreciation charges totaled \$379,180 for fiscal year 2015. More detailed information about the Commission's capital assets is presented in Note 3 to the financial statements.

LONG-TERM DEBT

At June 30, 2015, the Commission has \$2,944,437 in long-term debt and other liabilities outstanding, a decrease of \$236,763 from 2014. The decrease is related to the required principal payments. More detailed information about the Commission's long-term debt is presented in Note 4 to the financial statements.

ECONOMIC FACTORS

Cherokee County Area Solid Waste Commission maintained its financial position during the current fiscal year. The current condition of the economy in the state continues to be a concern for Commission officials. Some of the realities that may potentially become challenges for the Commission to meet are:

- Facilities at the Commission require constant maintenance and upkeep.
- The operating costs of the new pellet fuel recycling facility that has produced limited revenue and they have discontinued its operations and are in process of selling the equipment.

- Technology continues to expand and current technology becomes outdated presenting an on going challenge to maintain up to date technology at a reasonable cost.
- Annual deposits required to be made to closure and post closure accounts are based on constantly changing cost estimates and the number of tons of solid waste received at the facility.
- Continued Iowa Department of Natural Resources' regulatory changes in permit compliance.

The Commission anticipates the current fiscal year will be much like the last and will maintain a close watch over resources to maintain the Commission's ability to react to unknown issues.

CONTACTING THE COMMISSION'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cherokee County Area Solid Waste Commission, 1805 Linden Street, Cherokee, Iowa 51012.

BASIC FINANCIAL STATEMENTS

CHEROKEE COUNTY SOLID WASTE COMMISSION
STATEMENT OF NET POSITION
JUNE 30, 2015

ASSETS

Current Assets

| | |
|----------------------------------------------|----------------|
| Cash and Cash Equivalents - Undesignated | \$ 444,449 |
| Cash and Cash Equivalents - Board Designated | 142,508 |
| Cash and Cash Equivalents - Restricted | 44,432 |
| Receivables: | |
| Accounts Receivable | 39,194 |
| Due from Other Governments | 188,408 |
| Accrued Interest | 2,187 |
| Prepaid Expenses | 35,023 |
| Total Current Assets | <u>896,201</u> |

Noncurrent Assets

| | |
|--------------------------------------------------------|------------------|
| Restricted Assets: | |
| Investments - Closure and Postclosure Care | 696,436 |
| Capital Assets (Net of Accumulated Depreciation) | 5,270,904 |
| Other Investment - CB Household Hazardous Waste Agency | 10,421 |
| Total Noncurrent Assets | <u>5,977,761</u> |
| Total Assets | <u>6,873,962</u> |

DEFERRED OUTFLOWS OF RESOURCES

| | |
|-----------------------------------|---------------|
| Pension Related Deferred Outflows | <u>24,967</u> |
|-----------------------------------|---------------|

LIABILITIES

Current Liabilities

| | |
|-----------------------------------|----------------|
| Accounts Payable | 44,216 |
| Salaries and Benefits Payable | 9,311 |
| Other Accrued Liabilities | 1,072 |
| Accrued Interest | 9,124 |
| Current Portion of Long Term Debt | 229,023 |
| Total Current Liabilities | <u>292,746</u> |

Long Term Liabilities

| | |
|---------------------------------------------------------------|------------------|
| Long Term Debt Net of Current Portion | 2,671,166 |
| Estimated Liability for Landfill Closure and Postclosure Care | 1,353,208 |
| Net Pension Liability | 120,745 |
| Total Long Term Liabilities | <u>4,145,119</u> |
| Total Liabilities | <u>4,437,865</u> |

DEFERRED INFLOWS OF RESOURCES

| | |
|----------------------------------|---------------|
| Pension Related Deferred Inflows | <u>59,245</u> |
|----------------------------------|---------------|

NET POSITION (Deficit)

| | |
|----------------------------------|---------------------|
| Net Investment in Capital Assets | 2,370,715 |
| Restricted For: | |
| Tonnage Fees Retained | 44,432 |
| Closure and Postclosure Care | 696,436 |
| Unrestricted (Deficit) | (709,764) |
| Total Net Position | <u>\$ 2,401,819</u> |

See Accompanying Notes to Financial Statements

CHEROKEE COUNTY SOLID WASTE COMMISSION
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUES

| | |
|-----------------------------|------------------|
| County and City Assessments | \$ 840,434 |
| Tipping Fees | 528,355 |
| Sales of Recycled Products | 42,718 |
| Rent Income | 14,151 |
| Chicken Disposal Income | 113,881 |
| Miscellaneous | 3,541 |
| Total Operating Revenues | <u>1,543,080</u> |

OPERATING EXPENSES

| | |
|---------------------------------------------------|------------------|
| Salaries | 192,599 |
| Payroll Tax Expenses | 17,384 |
| Directors and Management Fees | 8,490 |
| Newspaper Purchased | 13,088 |
| Shop Supplies and Expenses | 2,267 |
| Insurance | 82,174 |
| Employee Benefits | 48,151 |
| Vehicle Expense | 759 |
| Disposal Fees | 848 |
| Repairs - Building | 746 |
| Repairs - Equipment | 42,201 |
| Fuel | 36,748 |
| Rock Expense | 19,749 |
| Landfill Expenses | 41,243 |
| Recycling Expense | 13,935 |
| PCB Clinic Expenses | 10,838 |
| Depreciation and Amortization | 381,917 |
| Utilities | 14,985 |
| Engineering and Testing | 55,082 |
| Iowa Department of Natural Resources Tonnage Fees | 31,925 |
| Advertising | 3,452 |
| Office Supplies and Postage | 3,853 |
| Professional Services | 52,591 |
| License, Fees and Permits | 3,359 |
| Closure and Postclosure Care Costs | 315,357 |
| Bad Debt Expense | 214 |
| Miscellaneous Expenses | 12,318 |
| Total Operating Expense | <u>1,406,273</u> |

| | |
|------------------|---------|
| Operating Income | 136,807 |
|------------------|---------|

NONOPERATING REVENUES (EXPENSES)

| | |
|-----------------------------|------------------|
| Interest Income | 8,934 |
| Gain on Sale of Equipment | 1,398 |
| Interest Expense | (121,129) |
| Net Nonoperating (Expenses) | <u>(110,797)</u> |

| | |
|------------------------|--------|
| Change in Net Position | 26,010 |
|------------------------|--------|

| | |
|-------------------------------------------|----------------------------|
| Net Position Beginning of Period | 2,543,229 |
| Prior Period Adjustment | (167,420) |
| Restated Net Position Beginning of Period | <u>2,375,809</u> |
| Net Position End of Period | <u><u>\$ 2,401,819</u></u> |

See Accompanying Notes to Financial Statements

CHEROKEE COUNTY SOLID WASTE COMMISSION
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015

Cash Flows from Operating Activities:

| | |
|-----------------------------------------------|----------------|
| Cash Received from Gate Fees and Assessments | \$ 1,374,342 |
| Cash Received from Recycling Sales | 42,718 |
| Cash Received from Miscellaneous Income | 17,692 |
| Cash Paid to Suppliers for Goods and Services | (500,337) |
| Cash Paid to Employees for Services | (278,434) |
| Net Cash Provided by Operating Activities | <u>655,981</u> |

Cash Flows from Capital & Related

Financing Activities:

| | |
|-----------------------------------------------------------|------------------|
| Acquisition of Property and Equipment | (138,543) |
| Proceeds from Sale of Equipment | 2,211 |
| Principal Paid on Notes | (236,763) |
| Interest Payments | (116,344) |
| Net Cash (Used) by Capital & Related Financing Activities | <u>(489,439)</u> |

Cash Flows from Investing Activities:

| | |
|---------------------------------------------|--------------|
| Purchase of Investments | (7,290) |
| Interest Received | 8,884 |
| Net Cash Provided from Investing Activities | <u>1,594</u> |

Net Increase in Cash and Cash Equivalents 168,136

Cash and Cash Equivalents - Beginning of Period 463,253

Cash and Cash Equivalents - End of Period \$ 631,389

Components of Cash and Cash Equivalents - End of Period:

| | |
|----------------------------------------------|--------------------------|
| Cash and Cash Equivalents - Undesignated | \$ 444,449 |
| Cash and Cash Equivalents - Board Designated | 142,508 |
| Cash and Cash Equivalents - Restricted | 44,432 |
| | <u><u>\$ 631,389</u></u> |

See Accompanying Notes to Financial Statements

**CHEROKEE COUNTY SOLID WASTE COMMISSION
STATEMENT OF CASH FLOWS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2015**

**RECONCILIATION OF OPERATING INCOME TO
NET CASH PROVIDED BY OPERATING ACTIVITIES:**

| | |
|------------------------------------------------------|--------------------------|
| Operating Income | \$ 136,807 |
| Adjustments to Reconcile Operating Income to | |
| Net Cash Provided by Operating Activities: | |
| Depreciation and Amortization | 381,917 |
| (Increase) Decrease in: | |
| Accounts Receivable | 3,085 |
| Due from Other Governments | (111,413) |
| Prepaid Expenses | 602 |
| Deferred Outflows of Resources | (7,176) |
| Increase (Decrease) in: | |
| Accounts Payable | (16,063) |
| Salaries and Benefits Payable | 586 |
| Other Accrued Liabilities | 198 |
| Landfill Closure and Postclosure Care Cost Liability | 272,658 |
| Net Pension Liability | (64,465) |
| Deferred Inflows of Resources | 59,245 |
| Total Adjustments | <u>519,174</u> |
| Net Cash Provided by Operating Activities | <u>\$ 655,981</u> |

See Accompanying Notes to Financial Statements

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Cherokee County Solid Waste Commission owns and operates a sanitary solid waste landfill site in Cherokee County, Iowa. The Commission is a proprietary fund type 28E organization and was established to provide for the economic collection and disposal of all solid waste produced or generated within each member Municipality and to cooperate in preventing the contamination of our natural resources. The Commission is composed of one representative from each of the eight member cities and one representative from Cherokee County. Members of the Commission are the County of Cherokee, the Cities of Cherokee, Aurelia, Quimby, Washta, Marcus, Cleghorn, Meriden, and Larrabee.

The Commission's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the Cherokee County Solid Waste Commission has included all funds, organizations, account groups, agencies, boards, commissions and authorities. The Commission has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commission are such that exclusion would cause the Commission's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Commission to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Commission. The Commission has no component units which meet the Governmental Accounting Standards Board criteria.

B. Jointly Governed Organization

The Commission also participates in a jointly governed organization, CB Household Hazardous Waste Agency, whose purpose is to oversee the Household Hazardous Waste facility that is located at the Cherokee County Landfill.

Cherokee and Buena Vista landfills are members of CB Household Hazardous Waste Agency.

The Agency does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating Commissions.

C. Basis of Presentation

The accounts of the Cherokee County Solid Waste Commission are organized as a single business-type activity. Business-type activities are used to account for operations (a) financed and operated in a manner similar to private business enterprises, where the intent of the governing body is the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability or other purposes.

D. Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Commission distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Commission's principal ongoing operations. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Cash, Cash Equivalents and Investments

The Commission considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the date of purchase, have a maturity date no longer than three months. The Commission did not have any short-term investments during the year ended June 30, 2015.

F. Restricted Investments

Funds set aside for payment of closure and post closure care costs are classified as restricted.

G. Capital Assets

Capital assets are accounted for at historical cost. Depreciation of all exhaustible capital assets is charged as an expense against operations. The cost of repair and maintenance is charged to expense, while the cost of renewals or substantial betterments is capitalized. The cost and accumulated depreciation of assets disposed of are deleted, with any gain or loss recorded in current operations.

Reported capital assets are defined by the Commission as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of one year.

| <u>Asset Class</u> | <u>Amount</u> |
|---------------------------|---------------|
| Building and Improvements | \$ 1,000 |
| Equipment and Vehicles | \$ 1,000 |

Capital assets of the Commission are depreciated using the straight line method over the following estimated useful lives:

| <u>Asset Class</u> | <u>Estimated Useful Lives (In Years)</u> |
|--------------------------------|--------------------------------------------------|
| Buildings | 39 |
| Land and Building Improvements | 20 - 39 |
| Equipment and Vehicles | 5 - 15 |

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest is capitalized on qualified assets acquired with certain tax-exempt debt. The amount of interest to be capitalized is calculated by offsetting interest expense incurred from the date of the borrowing until completion of the project with interest earned on invested proceeds over the same period. There were no qualifying assets acquired during the years ended June 30, 2015.

H. Deferred Outflows of Resources

Deferred outflows of resources represent a consumption of net position that applies to a future period(s) and will not be recognized as an outflow of resources (expense) until then. Deferred outflows of resources consist of unrecognized items not yet charged to pension expense and contributions from the employer after the measurement date but before the end of the employer's reporting period.

I. Compensated Absences

Commission employees accumulate a limited amount of earned but unused vacation and personal leave hours for subsequent use or for payment only upon termination, death or retirement. The Commission's liability for accumulated vacation and personal leave, including applicable employee benefits, has been computed based on rates of pay in effect at June 30, 2015.

J. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

K. Deferred Inflows of Resources

Deferred inflows of resources represent an acquisition of net position that applies to a future period(s) and will not be recognized as an inflow of resources (revenue) until that time. Although certain revenues are measurable, they are not available. Available means collected within the current year or expected to be collected soon enough thereafter to be used to pay liabilities of the current year.

Deferred inflows of resources in the Statement of Net Position consist of the unamortized portion of the net difference between projected and actual earnings on pension plan investments.

L. Accounts Receivable and Allowances

Bad debts are provided on the allowance method based on historical experience and management's evaluation of outstanding accounts receivable at the end of the fiscal year. The allowance for doubtful accounts at June 30, 2015 was \$0

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 2 – CASH, CASH EQUIVALENTS AND INVESTMENTS

The Commission's deposits in banks at June 30, 2015 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Commission is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Commission; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Commission's investments consist only of certificates of deposits which are stated at cost.

Interest rate risk: This is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Commission does have a formal investment policy that limits investment maturities as a means of managing its exposure. Information about the exposure of the Commission's debt type investments to this risk, using the segmented time distribution model is as follows:

| Type of Investment | Fair Value | Investment Maturities (in Years) | |
|--------------------------|------------|----------------------------------|-------------|
| | | Less Than 1 Year | 1 – 5 Years |
| Certificates of Deposits | \$696,436 | \$132,269 | \$564,167 |

Note 3 – CAPITAL ASSETS

A summary of capital assets at June 30, 2015 as follows:

| | Beginning Balance | Additions | Deletions | Balance End of Year |
|---------------------------------------------|----------------------|--------------|-----------|------------------------|
| Capital Assets Not Being Depreciated | | | | |
| Land | \$ 424,000 | \$ - | \$ - | \$ 424,000 |
| Total Capital Assets Not Depreciated | 424,000 | - | - | 424,000 |
| Capital Assets Being Depreciated | | | | |
| Buildings | 2,198,897 | - | - | 2,198,897 |
| Machinery and Equipment | 3,442,924 | 79,796 | 31,616 | 3,491,104 |
| Office Equipment and Furniture | 14,335 | 9,585 | - | 23,920 |
| Land Improvements | 240,276 | - | - | 240,276 |
| East Landfill | 1,893,884 | 49,162 | - | 1,943,046 |
| Total Capital Assets Being Depreciated | 7,790,316 | 138,543 | 31,616 | 7,897,243 |
| Less Accumulated Depreciation For: | | | | |
| Buildings | 808,513 | 60,852 | - | 869,365 |
| Machinery and Equipment | 1,219,787 | 202,733 | 30,802 | 1,391,718 |
| Office Equipment and Furniture | 13,881 | 578 | - | 14,459 |
| Land Improvements | 117,556 | 6,976 | - | 124,532 |
| East Landfill | 542,224 | 108,041 | - | 650,265 |
| Total Accumulated Depreciation | 2,701,961 | 379,180 | 30,802 | 3,050,339 |
| Total Capital Assets Being Depreciated, Net | 5,088,355 | (240,637) | 814 | 4,846,904 |
| Total Capital Assets, Net | \$ 5,512,355 | \$ (240,637) | \$ 814 | \$ 5,270,904 |

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 3 – CAPITAL ASSETS (Continued)

Reconciliation of Net Investment in Capital Assets:

| | |
|--------------------------------------------------------|---------------------|
| Capital Assets (Net of Accumulated Depreciation) | \$ 5,270,904 |
| Less: Notes Payable (Net of Unamortized Bond Discount) | (2,900,189) |
| Net Investment in Capital Assets | <u>\$ 2,370,715</u> |

Note 4 – LONG TERM DEBT

Changes in long-term debt at June 30, 2015 are summarized as follows:

| | 6/30/2014 Balance (Restated) | Additions | Reductions | 6/30/2015 Balance | Due 1 |
|--------------------------------------------------------|---------------------------------|-------------------|---------------------|----------------------|-----------|
| Farmers State Bank Note - Dozer | \$ 117,519 | \$ - | \$ (23,718) | \$ 93,801 | \$ |
| Farmers State Bank Note - Compactor | 213,681 | - | (83,045) | 130,636 | |
| Cherokee County 2011 Notes | 2,850,000 | - | (130,000) | 2,720,000 | |
| Net Pension Liability | 185,210 | - | (64,465) | 120,745 | |
| Est. Liability for Landfill Closure & Postclosure Care | 1,080,550 | 272,658 | - | 1,353,208 | |
| Total | <u>\$ 4,446,960</u> | <u>\$ 272,658</u> | <u>\$ (301,228)</u> | <u>\$ 4,418,390</u> | <u>\$</u> |

Notes Payable listed on the Statement of Net Position is net of Unamortized Bond Discounts of \$44,248.

The following is a schedule of future payments to be made concerning long term debt at June 30, 2015.

| Year Ended June 30, | Amount |
|---------------------|---------------------|
| 2016 | \$ 229,023 |
| 2017 | 213,432 |
| 2018 | 159,635 |
| 2019 | 162,347 |
| 2020 | 145,000 |
| 2021-2025 | 810,000 |
| 2026-2030 | 1,000,000 |
| 2031 | 225,000 |
| | <u>\$ 2,944,437</u> |

Notes Payable

The Commission entered into a note payable to Cherokee County, who acted as the issuer, for the Taxable General Obligation Refunding Capital Loan Notes, Series 2011A in the aggregate principal amount of \$2,775,000 and the \$445,000 General Obligation Capital Loan Notes, Series 2011B dated September 21, 2011. The purpose of Series 2011A is to refund the 2007 notes and the Series 2011B is to pay for the costs of works and facilities useful for the collection, treatment, and disposal of solid waste. Annual principal payments began June 2012. Interest payments are due semi-annually each June and December, beginning December 2011. Interest rates vary between 5.75% and 6.25% over the life of the note. The note will mature June 2031. The balance at June 30, 2015 was \$2,720,000.

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 4 – LONG TERM DEBT (Continued)

The Commission entered into a note payable with Farmers State Bank on March 26, 2013 for purposes of financing the purchase of the Landfill Compactor. Monthly principal and interest payments of \$6,779.74 began April 26, 2013. The interest rate is 2.9%. The note was secured by the Landfill Compactor. The balance at June 30, 2015 was \$130,636.

The Commission entered into a note payable with Farmers State Bank on May 20, 2014 for purposes of financing the purchase of a Dozer. Monthly principal and interest payments of \$2,141.67 began June 20, 2014. The interest rate is 2.9%. The note was secured by the Dozer. The balance at June 30, 2015 was \$93,801.

Note 5 – RENT INCOME

The Commission has a short term operating lease on the house at the landfill site with an employee.

The Commission has an operating lease on 24 acres of tillable land with unrelated parties. The lease agreement is for \$225 per acre. The acres may vary as the landfill uses the land. One-half of the payment is to be received on or before March 1st and the second half is due on or before November 1st. The lease agreement expires March 1, 2016. The total parcel of 80 acres of land has a book cost of \$280,000.

Land and rental house income resulted in income of \$8,039 for the year ended June 30, 2015.

Note 6 – PENSION AND RETIREMENT BENEFITS

Plan Description

IPERS membership is mandatory for employees of the Commission, except those covered by another retirement system. Employees of the Commission are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules there under. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits

A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment, or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. (These qualifications must be met on the member's first month of entitlement to benefits.) Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary. (For members with service before June 30, 2012, the highest three-year average salary as of that date will be used if it is greater than the highest five-year average salary.)

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6 – PENSION AND RETIREMENT BENEFITS (Continued)

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25 percent for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50 percent for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits

A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions

Effective July 1, 2012, as a result of a 2010 law change, the contribution rates are established by IPERS following the annual actuarial valuation, which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll, based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2015, pursuant to the required rate, Regular members contributed 5.95 percent of pay and the Commission contributed 8.93 percent for a total rate of 14.88 percent.

The Commission's total contributions to IPERS for the year ended June 30, 2015 were \$18,326.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2015, the Commission reported a liability of \$120,745 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The Commission's proportion of the net pension liability was based on the Commission's share of contributions to the pension plan relative to the contributions of all IPERS participating employers. At June 30, 2014, the Commission's collective proportion was 0.003045 percent which was a decrease of 0.000181 percent from its proportion measured as of June 30, 2013.

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6 – PENSION AND RETIREMENT BENEFITS (Continued)

For the year ended June 30, 2015, the Commission recognized pension expense of \$5,930. At June 30, 2015, the Commission reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|-------------------------------------------------------------------------------------------------------------|-----------------------------------|----------------------------------|
| Differences between expected and actual experience | \$ 1,312 | \$ - |
| Changes of assumptions | 5,329 | - |
| Net difference between projected and actual earnings on pension plan investments | - | 46,049 |
| Changes in proportion and differences between County contributions and proportionate share of contributions | - | 13,196 |
| City contributions subsequent to the measurement date | 18,326 | - |
| Total | <u>\$ 24,967</u> | <u>\$ 59,245</u> |

\$18,326 reported as deferred outflows of resources related to pensions resulting from the Commission contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ended June 30, | |
|---------------------------|--------------------|
| 2016 | \$ (13,043) |
| 2017 | (13,043) |
| 2018 | (13,043) |
| 2019 | (13,043) |
| 2020 | (432) |
| | <u>\$ (52,604)</u> |

There were no non-employer contributing entities at IPERS.

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6 – PENSION AND RETIREMENT BENEFITS (Continued)

Actuarial Assumptions

| | |
|------------------------------------------------------------------|--------------------------------------------------------------------------------------|
| Rate of inflation (effective June 30, 2014) | 3.00 percent per annum |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00 percent, average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 1996) | 7.50 percent, compounded annually, net of investment expense, including inflation |

The total pension liability in the June 30, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---------------------------------------------------|
| US Equity | 23% | 6.31 |
| Non US Equity | 15 | 6.76 |
| Private Equity | 13 | 11.34 |
| Real Estate | 8 | 3.52 |
| Core Plus Fixed Income | 28 | 2.06 |
| Credit Opportunities | 5 | 3.67 |
| TIPS | 5 | 1.92 |
| Other Real Assets | 2 | 6.27 |
| Cash | 1 | -0.69 |
| Total | <u>100%</u> | |

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the Commission will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected

**CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Note 6 – PENSION AND RETIREMENT BENEFITS (Continued)

rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Commission's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Commission's proportionate share of the net pension liability calculated using the discount rate of 7.5 percent; as well as what the Commission's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.5 percent) or 1-percentage-point higher (8.5 percent) than the current rate.

| | 1% Decrease (6.5%) | Discount Rate (7.5%) | 1% Increase (8.5%) |
|----------------------------------------------------------------|--------------------------|----------------------------|--------------------------|
| Commission's proportionate share of the net pension liability: | \$ 228,145 | \$ 120,745 | \$ 30,089 |

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

Payables to the Pension Plan

At June 30, 2015, the Commission reported payables to the defined benefit pension plan of \$1,439 for legally required employer contributions and \$959 for legally required employee contributions which had been withheld from employee wages but not yet remitted to IPERS.

Note 7 – RISK MANAGEMENT

Cherokee County Solid Waste Commission is a member in the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials' liability, police professional liability, property, inland marine, and boiler/machinery. There have been no reductions in insurance coverage from prior years.

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of basis rate or to comply with the requirements of any applicable regulatory authority having jurisdiction over the pool.

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 6 – RISK MANAGEMENT (Continued)

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The Cherokee County Solid Waste Commission's property and casualty contributions to the risk pool are recorded as expenditures from its fund at the time of payment to the risk pool. The Commission's annual contributions to the Pool for the year ended June 30, 2015 was \$22,221.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$12,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$150,000 each occurrence, each location, with excess coverage reinsured by the Travelers Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event that a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. The Commission does not report a liability for losses in excess of reinsurance or excess risk-sharing recoveries unless it is deemed probable that such losses have occurred and the amount of such loss can be reasonably estimated. Accordingly, at June 30, 2015, no liability has been recorded in the Commission's financial statements. As of June 30, 2015, settled claims have not exceeded the risk pool or reinsurance coverage since the pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their capital contributions. If a member withdraws after the sixth year, the member is refunded 100 percent of its casualty capital contributions. However, the refund is reduced by an amount equal to the annual operating contribution which the withdrawing member would have made for the one-year period following the withdrawal.

The Commission also carries commercial insurance purchased from other insurers for coverage associated with workers compensation and employee blanket bond in the amount of \$1,000,000 and \$100,000, respectively. The Commission assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 8 – CASH IN BANK – BOARD DESIGNATED

The Commission has designated \$4,200 per month to be deposited in an account to be used for equipment purchases. They have also designated \$6,850 per month to be deposited in an account to be used for landfill development. As of June 30, 2015, the balances in these accounts are \$44,811 and \$97,697, respectively.

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 9 – SOLID WASTE TONNAGE FEES RETAINED

The Commission has established an account for restricting and using solid waste tonnage fees retained by the Commission in accordance with Chapter 455B.310 of the Code of Iowa.

As of June 30, 2015, the unspent amounts retained by the Commission and restricted for the required purposes totaled \$44,432.

Note 10 – CLOSURE AND POSTCLOSURE CARE COSTS

To comply with federal and state regulations, the Commission is required to complete a monitoring system plan and a closure/post closure plan and to provide funding necessary to effect closure and post closure, including the proper monitoring and care of the landfill after closure. Environmental Protection Agency (EPA) requirements have established closure and thirty-year post closure care requirements for all municipal solid waste landfills that receive waste after October 9, 1993. State governments are primarily responsible for implementation and enforcement of those requirements and have been given flexibility to tailor requirements to accommodate local conditions that exist. The effect of the EPA requirement is to commit landfill owners to perform certain closing functions and post closure monitoring functions as a condition for the right to operate the landfill in the current period. The EPA requirements provide that when a landfill stops accepting waste, it must be covered with a minimum of twenty-four inches of earth to keep liquid away from the buried waste. Once the landfill is closed, the owner is responsible for maintaining the final cover, monitoring ground water and methane gas, and collecting and treating leachate (the liquid that drains out of waste) for thirty years.

Governmental Accounting Standards Board Statement No. 18 requires landfill owners to estimate total landfill closure and post closure care costs and recognize a portion of these costs each year based on the percentage of estimated total landfill capacity used that period. Estimated total costs consist of four components: (1) the cost of equipment and facilities used in post closure monitoring and care, (2) the cost of final cover (material and labor), (3) the cost of monitoring the landfill during the post closure period and (4) the cost of any environmental cleanup required after closure. Estimated total cost is based on the cost to purchase those services and equipment currently, and is required to be updated annually for changes due to inflation or deflation, technology, or applicable laws or regulations.

These costs for the Cherokee County Solid Waste Commission have been estimated at \$614,236 for closure and \$2,128,882 for post closure, for a total of \$2,743,118 as of June 30, 2015, and the portion of the liability that has been recognized is \$1,373,208. These amounts are based on what it would cost to perform all closure and post closure care during the year ended June 30, 2015. Actual costs may be higher due to inflation, changes in technology or changes in regulations. The estimated remaining life of the landfill is 81.4 years and the capacity used at June 30, 2015 is 19.6 percent. The following table provides a breakdown of closure and post closure costs for each area:

| | |
|------------------------------------------|---------------------|
| Horizontal Expansion Cells | |
| A-1, A-2, A-3 and A-4 | \$ 614,236 |
| Horizontal Expansion Phase A and Phase B | 1,061,400 |
| Original Landfill Area Postclosure Costs | 1,067,482 |
| | <u>\$ 2,743,118</u> |

Chapter 455B.306(9) (b) of the Code of Iowa requires permit holders of municipal solid waste landfills to maintain separate closure and post closure care accounts to accumulate resources for the payment of closure and post closure care costs. The Commission has begun accumulating resources to fund these

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015

Note 10 – CLOSURE AND POSTCLOSURE CARE COSTS (Continued)

costs and, and as of June 30, 2015, assets of \$696,436 are restricted for these purposes, of which \$360,957 is for closure and \$335,479 is for post closure care. They are reported as restricted investments and restricted net assets on the Statement of Net Position.

Also, pursuant to Chapter 567-113.14(8) of the Iowa Administrative Code (IAC), since the estimated closure and post closure care costs are not fully funded, the Commission is required to demonstrate financial assurance for the unfunded costs. The Commission has adopted the dedicated fund financial assurance mechanism. The Commission obtained a local government guaranty from Cherokee County on June 10, 1997 for the purpose of financing the post closure costs of the landfill.

The updated "Municipal Solid Waste Sanitary Landfill Local Government Post Closure Guarantee" was approved by Cherokee County on April 13, 2010.

On April 14, 2006 the Commission received a letter from the DNR. A horizontal expansion of the landfill was approved and annual deposits may be made using the actual permitted capacity that is available.

Chapter 567-113.14(8) of the IAC allows the Commission to choose the dedicated fund mechanism to demonstrate financial assurance and use the accounts established to satisfy the closure and post closure care account requirements. Accordingly, the Commission is not required to establish closure and post closure care account in addition to the accounts established to comply with the dedicated fund financial assurance mechanism.

Note 11 – PRIOR PERIOD ADJUSTMENT – ACCOUNTING CHANGE

Governmental Accounting Standards Board Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB No. 27* was implemented during fiscal year 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, GASB No. 68 requires a state or local government employer to recognize a net pension liability and changes in the net pension liability, deferred outflows of resources and deferred inflows of resources which arise from other types of events related to pensions. During the transition year, as permitted, beginning balances for deferred outflows of resources and deferred inflows of resources will not be reported, except for deferred outflows of resources related to contributions made after the measurement date of the beginning net pension liability which is required to be reported by Governmental Accounting Standards Board Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*. Beginning net position for governmental activities was restated to retroactively report the beginning net pension liability and deferred outflows of resources related to contributions made after the measurement date, as follows:

| | <u>Net Position</u> |
|----------------------------------------------------------------------------------------------------------|----------------------------|
| Net Position June 30, 2014 as previously reported | \$ 2,543,229 |
| Net Pension Liability at June 30, 2014 | (185,210) |
| Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date | <u>17,790</u> |
| Net Position June 30, 2014 as restated | <u><u>\$ 2,375,809</u></u> |

REQUIRED SUPPLEMENTARY INFORMATION

CHEROKEE COUNTY SOLID WASTE COMMISSION
SCHEDULE OF THE COMMISSION'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM LAST FISCAL YEAR*
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015

| | |
|---------------------------------------------------------------------------------------------------------------|------------|
| | 2015 |
| Commission proportion of the net pension liability (asset) | 0.002984% |
| Commission's proportionate share of the net pension liability | \$ 120,745 |
| Commissions covered employee payroll | \$ 204,995 |
| Commission's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 58.90% |
| Plan fiduciary net position as a percentage of the total pension liability | 87.61% |

* The amounts presented for each fiscal year were determined as of June 30.

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the Commission will present information for those years for which information is available.

**CHEROKEE COUNTY SOLID WASTE COMMISSION
SCHEDULE OF COMMISSION CONTRIBUTIONS
IOWA PUBLIC EMPLOYEE'S RETIREMENT SYSTEM LAST TEN FISCAL YEARS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2015**

| | <u>2015</u> | <u>2014</u> | <u>2013</u> | <u>2012</u> | <u>2011</u> |
|-----------------------------------------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Statutorily required contribution | \$ 18,326 | \$ 17,791 | \$ 18,343 | \$ 50,042 | \$ 50,055 |
| Contributions in relation to the statutorily required contribution | <u>18,326</u> | <u>17,791</u> | <u>18,343</u> | <u>50,042</u> | <u>50,055</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Commission's covered-employee payroll | \$ 204,995 | \$ 199,225 | \$ 211,564 | \$ 620,100 | \$ 720,216 |
| Contributions as a percentage of covered-employee payroll | 8.93% | 8.93% | 8.67% | 8.07% | 6.95% |
| | | | | | |
| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> |
| Statutorily required contribution | \$ 43,391 | \$ 53,372 | \$ 52,040 | \$ 48,820 | \$ 48,837 |
| Contributions in relation to the statutorily required contribution | <u>43,391</u> | <u>53,372</u> | <u>52,040</u> | <u>48,820</u> | <u>48,837</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Commission's covered-employee payroll | \$ 652,504 | \$ 758,270 | \$ 529,867 | \$ 516,617 | \$ 516,788 |
| Contributions as a percentage of covered-employee payroll | 6.65% | 6.35% | 6.05% | 5.75% | 5.75% |

See Accompanying Independent Auditors' Report

CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
YEAR ENDED JUNE 30, 2015

Changes of benefit terms:

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators, and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

**CHEROKEE COUNTY SOLID WASTE COMMISSION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – PENSION LIABILITY
YEAR ENDED JUNE 30, 2015**

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Directors of the
Cherokee County Solid Waste Commission

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Cherokee County Solid Waste Commission (the Commission), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated February 25, 2016

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Commission's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in accompanying schedule of findings, 2015-001, to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Commission's operations for the year ended June 30, 2015 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Commission. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Cherokee County Solid Waste Commission's Response to Findings

Cherokee County Solid Waste Commission's responses to findings identified in our audit are described in the accompanying Schedule of Findings. The Commission's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Williams & Company, P.C.

Certified Public Accountants

Spencer, Iowa
February 25, 2016

**CHEROKEE COUNTY SOLID WASTE COMMISSION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part 1: Summary of the Independent Auditors' Results:

- (A) An unmodified opinion was issued on the financial statements.
- (B) A material weakness in internal control over financial reporting was disclosed by the audit of the financial statements.
- (C) The audit did not disclose any noncompliance which could have a material effect on the financial statement accounts.

Part II: Findings Related to the Financial Statements

INSTANCES OF NONCOMPLIANCE:

No matters were reported.

MATERIAL WEAKNESS:

2015-001 Financial Reporting

Criteria – The Commission is responsible for the accuracy and correct reporting of the financial statements.

Condition - During the audit, we identified that the pension related deferred outflows and inflows had not been properly adjusted in accordance with GASB 68. Adjustments were subsequently made by the Commission to properly include these amounts in the financial statements.

Effect – As a result of these misstatements, the financial statements were materially misstated.

Recommendation – The Commission should ensure that all Government Accounting Standards are being followed.

Response - The Commission and the outsourced accounting firm will review any new Government Accounting Standards issued to ensure items are properly recorded.

Conclusion - Response accepted.

**CHEROKEE COUNTY SOLID WASTE COMMISSION
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2015**

Part III: Other Findings Related to Statutory Reporting

- 15-III-A: Official Depositories** – The Board of Trustees has approved a resolution naming official depositories. The maximum deposit amount stated in the resolution was not exceeded during the year ended June 30, 2015.
- 15-III-B: Questionable Expenses** – No expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- 15-III-C: Travel Expenses** – No expenditures of money for travel expenses of spouses of Commission's officials or employees were noted.
- 15-III-D: Board Minutes** – No transactions were found that we believe should have been approved in the Board minutes but were not.
- 15-III-E: Deposits and Investments** – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Cherokee County Solid Waste Commission's investment policy were noted.
- 15-III-F: Solid Waste Tonnage Fees Retained** – No instances of non-compliance with the solid waste fees used or retained in accordance with provisions of Chapter 455B.310 of the Code of Iowa were noted.
- 15-III-G: Financial Assurance** – The Commission has demonstrated financial assurance for closure and post-closure care costs by establishing a local government dedicated fund as provided in Chapter 567-113.14(6) of the Iowa Administrative Code. The calculation is made as follows:

| | Closure | Post Closure |
|--------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------|-------------------|
| Total estimated costs for closure and post closure care | \$ 614,236 | \$ 2,128,882 |
| Less: Balance of funds held in the local dedicated fund at June 30, 2014 | <u>(351,454)</u> | <u>(309,255)</u> |
| | <u>262,782</u> | <u>1,819,627</u> |
| Required payment into the local dedicated fund by 30 days after the year ended June 30, 2014 per financial assurance report calculated by the engineer | 1,817 | 18,933 |
| Balance of funds held in the local dedicated fund at June 30, 2014 | <u>351,454</u> | <u>309,255</u> |
| Required balance of funds held in the local dedicated fund at June 30, 2015 | <u>\$ 353,271</u> | <u>\$ 328,188</u> |
| Amount Commission has restricted and reserved for closure and post closure care at June 30, 2015 | <u>\$ 360,957</u> | <u>\$ 335,479</u> |